

Agenda Item No. 110

Appendix 1

**East Sussex Fire Authority  
Audit Results Report**

Year ended 31 March 2017

September 2017

Dear Scrutiny & Audit Panel Members

We have substantially completed our audit of East Sussex Fire Authority (the Authority) for the year ended 31 March 2017.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form in Section 3, before the statutory deadline of 30 September 2017. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources

This report is intended solely for the use of the Scrutiny & Audit Panel, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We look forward to discussing with you any aspects of this report or any other issues arising from our work.

Yours faithfully

Paul King  
Executive Director

For and on behalf of Ernst & Young LLP

United Kingdom

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website ([www.PSAA.co.uk](http://www.PSAA.co.uk)).

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment (updated September 2015)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee, other members of the Authority and management of [client] in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Scrutiny & Audit Panel, other members of the Authority and management of East Sussex Fire Authority those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Scrutiny & Audit Panel, other members of the Authority and management of East Sussex Fire Authority for this report or for the opinions we have formed. It should not be provided to any third-party without obtaining our written consent.



**01**

## Executive Summary



# Executive Summary

## Overview of the audit

### Scope and materiality

In our Audit Plan presented to the 2 February 2017 Scrutiny & Audit Panel meeting, we gave you an overview of how we intended to carry out our responsibilities as your auditor. We carried out our audit in accordance with this plan.

We planned our procedures using a materiality of £1,068,000 for the main financial statements and £222,760 for the pension fund accounts. We reassessed this using the actual year-end figures, which has decreased these amounts to £1,040,000 and £217,560 respectively. The threshold for reporting audit differences has decreased from £53,400 to £52,000 and from £11,138 to £10,878 respectively. The basis of our assessment of materiality has remained consistent with prior years at 2% of gross revenue expenditure and benefits payable.

### Status of the audit

We have substantially completed our audit of East Sussex Fire Authority's financial statements for the year ended 31 March 2017 and have performed the procedures outlined in our Audit plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

- Review of the final version of the financial statements
- Completion of subsequent events review
- Receipt of the signed management representation letter
- Receipt of additional information from KPMG, East Sussex Pension Fund auditors



## Executive Summary

### Executive summary (continued)

#### Status of the audit (continued)

We expect to issue the audit certificate at the same time as the audit opinion.

#### Audit differences

There are no unadjusted audit differences arising from our audit.

We have identified a number of adjustments which have been corrected by management in the revised financial statements subject to approval. These are set out in Section 4.

We also identified a number of minor disclosure adjustments which have also been corrected by management. The more significant of these are set out in Section 4.

#### Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of the Authority's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Scrutiny & Audit Panel.



## Executive summary (continued)

### Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Plan we did not identify any significant risks.

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

### Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work.

We are not reporting any matters to the National Audit Office (NAO) regarding the Whole of Government Accounts submission as the Authority falls below the £350 million threshold for review as per the NAO's group instructions.

We have no other matters to report.

### Control observations

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.

### Independence

Please refer to Appendix B for our update on Independence.



# 02 Areas of Audit Focus



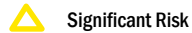




## Areas of Audit Focus

# Audit issues and approach: Significant risks

### Management override



#### What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business

#### What is the risk?

##### Risk of management override

As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and to prepare fraudulent financial statements by overriding controls that otherwise seem to be operating effectively.

We identify and respond to this fraud risk on every audit engagement.

#### What did we do?

In order to address this risk we carried out a range of procedures including:

- testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;
- reviewing significant accounting estimates (including valuations of property, plant and equipment and pensions) for evidence of management bias including a review of the methodology used to calculate the estimates at the year-end; and
- evaluating the business rationale for any significant unusual transactions.



# Audit issues and approach: Other financial statement risks

### Presentation of the financial statements



Other Risk

### What are our conclusions?

We proposed some minor disclosure amendments that management have agreed to make in the financial statements.

In particular it should be noted that the Expenditure and Funding Analysis (EFA), although positioned amongst them, is not a Primary Statement (consistent with the Code Guidance notes).

As such, an additional narrative paragraph has been added to the EFA, to reflect this.

There were no other matters to report.

### What is the risk?

#### Expenditure and funding analysis and Comprehensive income and expenditure statement

Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the code) this year changing the way the financial statements are presented.

The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.

The Code no longer requires statements or notes to be prepared in accordance with SeRCOP. Instead the Code requires that the service analysis is based on the organisational structure under which the authority operates. We expect this to show the Authority's segmental analysis.

This change in the code will require a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements. The restatement of the 2015/16 comparatives will require audit review, which could potentially incur additional costs, depending on the complexity and manner in which the changes are made.

### What did we do?

- In order to address this risk we carried out a range of procedures including:
  - Reviewing the expenditure and funding analysis, CIES and new disclosure notes to ensure disclosures are in line with the Code;
  - Reviewing the analysis of how these figures are derived, how the ledger system has been re-mapped to reflect the Authority's organisational structure and how overheads are apportioned across the service areas reported; and
  - Agreeing restated comparatives figures to the Authority's segmental analysis and supporting working papers.



# Audit issues and approach: Other financial statement risks (continued)

### Property, Plant and Equipment valuations



Other Risk

#### What are our conclusions?

Following full consideration of their work, we have placed reliance on the Authority's valuer. We have not identified any material issues in relation to the valuation however we did note some inconsistencies between the valuer's main report and supporting working papers.

We have no other matters to report.

#### What is the risk?

Property, Plant and Equipment represent a significant balance in the Authority's accounts and this is an area which involves judgemental inputs and estimates.

#### What did we do?

In order to address this risk we carried out a range of procedures including:

- Reviewing the competence and capability of the valuer and assessing their work, including reviewing the figures produced for the revaluation of the assets and ensuring that an appropriate basis for valuation has been used;
- Agreeing the figures produced by the valuer for the revaluation of the assets to the asset register; and
- Testing the accounting transactions for the adjustments made in the financial statements to ensure the accounts are materially accurate and compliant with the CIPFA Code of practice.



# Audit issues and approach: Other financial statement risks

### Pension valuations and disclosures



Other Risk

#### What are our conclusions?

Assumptions used by the actuary and adopted by the Authority are considered to be generally acceptable.

The sensitivities surrounding these assumptions have been correctly disclosed in Note 36 to the financial statements.

Under an Agreed Upon Procedures basis we requested information from the auditors of the East Sussex Pension Fund so that we can place reliance on the pension fund values. We have made an additional information request of the Auditor and are currently awaiting a response.

#### What is the risk?

The Authority is an admitted body to the East Sussex Pension Fund. Hymans Robertson are appointed as actuaries for this fund and provide the Authority with the figures for the disclosures in the financial statements, based on payroll and pension data provided to them by the Authority.

The valuation of pension liabilities represents a significant balance in the financial statements and is an area which involves technical accounting transactions and estimates.

#### What did we do?

In order to address this risk we carried out a range of procedures including:

- Reviewing the competence and capability of the actuary and assessing their work, including reviewing the assumptions used as the basis for producing for pensions figures;
- Agreeing the figures produced by the actuary in their actuarial valuation to the disclosures in the financial statements; and
- Testing the accounting transactions and journals to ensure the financial statements are materially accurate and compliant with the CIPFA Code of Practice.



**03**

## Audit Report



## Draft audit report

### Our opinion on the financial statements

#### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EAST SUSSEX FIRE AUTHORITY

##### Opinion on the Authority and firefighters' pension fund financial statements

We have audited the financial statements and the firefighters' pension fund financial statements of East Sussex Fire Authority for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement;
- Comprehensive Income and Expenditure Statement;
- Balance Sheet;
- Cash Flow Statement;
- The related notes 1 to 38 and the Expenditure and Funding Analysis (on page 14);
- Firefighters' pension fund financial statements comprising the;
  - Fund Account, and
  - Net Assets Statement and the related notes 1 to 4.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of East Sussex Fire Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

##### Respective responsibilities of the Assistant Director Resources / Treasurer and auditor



## Draft audit report (continued)

### Our opinion on the financial statements

As explained more fully in the Statement of the Assistant Director Resources / Treasurer Responsibilities set out on page 9, the Assistant Director Resources / Treasurer is responsible for the preparation of the Statement of Accounts, which includes the Authority financial statements and the firefighters pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's and the firefighters pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Assistant Director Resources / Treasurer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2016/17 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of East Sussex Fire Authority as at 31 March 2017 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

#### Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2016/17 for the financial year for which the financial statements are prepared is consistent with the financial statements.



## Draft audit report (continued)

### Our opinion on the financial statements

#### Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Authority;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

#### Conclusion on East Sussex Fire Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

##### *Authority's responsibilities*

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

##### *Auditor's responsibilities*

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.





## Draft audit report (continued)

### Our opinion on the financial statements

#### ***Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources***

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2016, as to whether the East Sussex Fire Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The C&AG determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether East Sussex Fire Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, East Sussex Fire Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

#### ***Conclusion***

On the basis of our work, having regard to the guidance issued by the C&AG in November 2016, we are satisfied that, in all significant respects, East Sussex Fire Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

#### **Certificate**

We certify that we have completed the audit of the accounts of East Sussex Fire Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Paul King (senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Appointed Auditor  
Southampton  
14 September 2017

#### **The following foot note should be added to the audit report when it is published or distributed electronically:**

The maintenance and integrity of the East Sussex Fire Authority web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and,



## Draft audit report (continued)

### Our opinion on the financial statements

**The following foot note should be added to the audit report when it is published or distributed electronically:**

The maintenance and integrity of the East Sussex Fire Authority web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



**04**

## Audit Differences



# Audit differences

In any audit, we may identify misstatements between amounts we believe should be recorded in the financial statements and disclosures and amounts actually recorded. These differences are classified as 'known' or 'judgemental'. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

### Summary of adjusted differences

We have included all known amounts greater than £780,000 relating to East Sussex Fire Authority in our summary of misstatements table below.

#### Financial Statements Adjustment

There were no material misstatements identified during the audit.

#### Disclosure Adjustments

We highlight the following misstatements in the disclosure notes identified during the audit. These have been corrected by management:

- Increase of £450 to a senior officer remuneration
- Inclusion of values for East Sussex County Council and Brighton & Hove City Council within note 32 related party transactions
- Increase of £139,000 to the estimated annual depreciation charge for every one year reduction in useful lives within note 4
- Decrease of £106,000-£176,000 to the estimated increase in pension liability for changes to life expectancy within note 4
- Two reallocations of amounts within the firefighters pension fund statement

We have also identified a number of other minor text and disclosure adjustments during the audit that have been updated by management in the financial statements.

We do not deem any of these to be so significant that they require reporting to you.

There were no uncorrected misstatements.

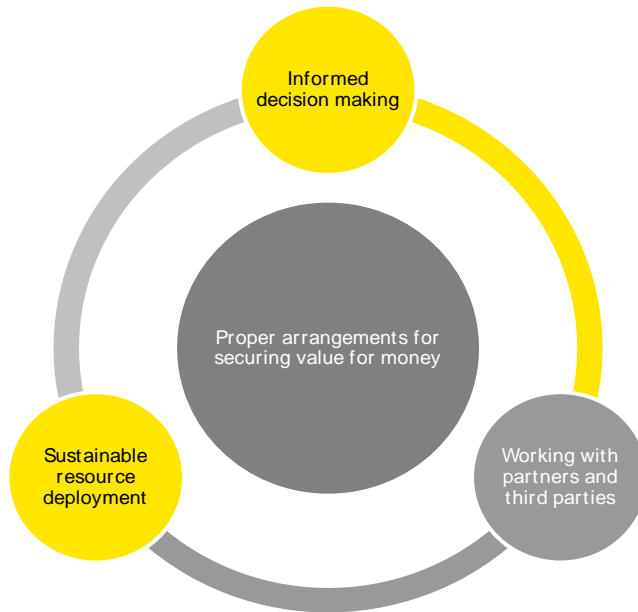


**05**

**Value for Money**



## Value for Money



### Economy, efficiency and effectiveness

We must consider whether you have 'proper arrangements' to secure economy, efficiency and effectiveness in your use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- take informed decisions;
- deploy resources in a sustainable manner; and
- work with partners and other third parties.

In considering your proper arrangements, we use the CIPFA/SOLACE framework for local government to ensure that our assessment is made against an already existing mandatory framework which you use in documents such as your Annual Governance Statement.

### Overall conclusion

We did not identify any significant risks around these criteria.

We therefore expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.



**06**

## Other reporting issues



# Other reporting issues

### Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in Statement of Accounts 2016/17 with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2016/17 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

### Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We have no issues to raise.





# Other reporting issues

### Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

### Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority’s financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations.

We have requested a management representation letter to gain management’s confirmation in relation to a number of matters. We have only requested standard representations. Appendix D sets out our request for these representations.

We identified some undisclosed related parties however there were no transactions with those parties during the financial year.

We have no other exceptions to report.



**07**

## Assessment of Control Environment



## Assessment of control environment

### Financial controls

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.



**08**

## Appendices



## Appendix A




# Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have done this by:

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Scrutiny & Audit Panel of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, including any limitations.	February 2017 Audit Plan
Significant findings from the audit	<ul style="list-style-type: none"> <li>• Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Any significant difficulties encountered during the audit</li> <li>• Any significant matters arising from the audit that were discussed with management</li> <li>• Written representations we have requested</li> <li>• Expected modifications to the audit report</li> <li>• Any other matters significant to overseeing the financial reporting process</li> <li>• Findings and issues around the opening balance on initial audits (delete if not an initial audit)</li> </ul>	September 2017 Audit Results Report
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	No conditions or events were identified, either individually or together to raise any doubt about East Sussex Fire Authority's ability to continue for the 12 months from the date of our report
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Significant corrected misstatements, in writing</li> </ul>	September 2017 Audit Results Report



# Appendix A

		 <b>Our Reporting to you</b>
Required communications	 <b>What is reported?</b>	  <b>When and where</b>
Fraud	<ul style="list-style-type: none"> <li>▶ Asking the Scrutiny &amp; Audit Panel whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>▶ Unless all those charged with governance are involved in managing the entity, any fraud identified or information obtained indicating that a fraud may exist involving:               <ul style="list-style-type: none"> <li>(a) management;</li> <li>(b) employees with significant roles in internal control; or</li> <li>(c) others where the fraud results in a material misstatement in the financial statements.</li> </ul> </li> <li>▶ A discussion of any other matters related to fraud, relevant to Scrutiny &amp; Audit Panel responsibility.</li> </ul>	We have asked management and those charged with governance about arrangements to prevent or detect fraud. We have not become aware of any fraud or illegal acts during our audit]
Related parties	Significant matters arising during the audit in connection with the Authority’s related parties including, where applicable: <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and/or regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	September 2017 Audit Results Report
Subsequent events	<ul style="list-style-type: none"> <li>▶ Where appropriate, asking the Scrutiny &amp; Audit Panel whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	We have asked management and those charged with governance. We have no matters to report
Other information	<ul style="list-style-type: none"> <li>▶ Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision.</li> </ul>	We have no matters to report
External confirmations	<ul style="list-style-type: none"> <li>▶ Management’s refusal for us to request confirmations</li> <li>▶ We were unable to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	We have received all requested confirmations
Consideration of laws and/or regulations	<ul style="list-style-type: none"> <li>▶ Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on “tipping off”</li> <li>▶ Asking the Scrutiny &amp; Audit Panel about possible instances of non-compliance with laws and/or regulations that may have a material effect on the financial statements, and known to the Scrutiny &amp; Audit Panel.</li> </ul>	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit.</li> </ul>	September 2017 Audit Results Report



# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Independence	<p>Communication of all significant facts and matters that have a bearing on EY's objectivity and independence. Communicating key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information on the firm's general policies and processes for maintaining objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards,</p>	<p>February 2017 - Audit Plan September 2017 - Audit Results Report</p>
Fee Reporting	<p>Breakdown of fee information when the audit plan is agreed Breakdown of fee information at the completion of the audit Any non-audit work</p>	<p>February 2017 - Audit Plan September 2017 - Audit Results Report September/October 2017 - Annual Audit Letter if considered necessary</p>



## Independence

We confirm that there are no changes in our assessment of independence since our confirmation in our audit plan dated February 2017.

We complied with the APB Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you Scrutiny & Audit Panel consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Scrutiny & Audit Panel on 14 September 2017

[We confirm we have undertaken non-audit work outside the PSAA Code requirements in relation to our work on..... We have adopted the necessary safeguards in our completion of this work].

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2017.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements.

Description	Final fee 2016/17 £'s	Planned Fee 2016/17 £'s	Scale Fee 2016/17 £'s	Final Fee 2015/16 £'s
<b>Total Audit Fee – Code work</b>	30,766	30,766	30,766	30,766







## Accounting and regulatory update

### Accounting update

Since the date of our last report to the Scrutiny & Audit Panel, new accounting standards and interpretations have been issued. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact on East Sussex Fire Authority 
<i>IFRS 9 Financial Instruments</i>	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> <li>• How financial assets are classified and measured</li> <li>• How the impairment of financial assets are calculated</li> <li>• Financial hedge accounting</li> <li>• The disclosure requirements for financial assets.</li> </ul> <p>• Transitional arrangements are included within the accounting standard, however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be and whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although some initial thoughts on the approach to adopting IFRS 9 have been issued by CIPFA, until the Code is issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Authority will have to:</p> <ul style="list-style-type: none"> <li>• Reclassify existing financial instrument assets</li> <li>• Remeasure and recalculate potential impairments of those assets; and</li> <li>• Prepare additional disclosure notes for material items</li> </ul>
<i>IFRS 15 Revenue from Contracts with Customers</i>	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"> <li>• Leases;</li> <li>• Financial instruments;</li> <li>• Insurance contracts; and</li> <li>• for local authorities; Council Tax and NDR income.</li> </ul> <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <ul style="list-style-type: none"> <li>• There are transitional arrangements within the standard; however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be.</li> </ul>	<p>As with IFRS 9, some initial thoughts on the approach to adopting IFRS 15 have been issued by CIPFA. However, until the Code is issued there remains some uncertainty. However, what is clear is that for all material income sources from customers the Authority will have to:</p> <ul style="list-style-type: none"> <li>• Disaggregate revenue into appropriate categories</li> <li>• Identify relevant performance obligations and allocate income to each</li> <li>• Summarise significant judgements</li> </ul>



## Appendix C

### *IFRS 16 Leases*

IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.

Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease in a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.

There are transitional arrangements within the standard, although as the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be or whether any statutory overrides will be introduced.

Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.


However, what is clear is that the Authority will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented.



## Accounting and regulatory update (continued)

### Regulatory update

Since the date of our last report to the Scrutiny & Audit Panel, there have been regulatory developments. The following table provides a high level summary of those that can have the most significant impact on you:

Name	Summary of key measures 	Impact on East Sussex Fire Authority
<i>Policing and Crime Act 2017</i>	<p>The key measures summarised here are those that are likely to have implications for the audit of the financial statements and the VFM conclusion:</p> <ul style="list-style-type: none"> <li>• Increase in emergency services collaboration between police bodies, ambulance and fire and rescue services</li> <li>• Provision for Police and Crime Commissioner (PCC) to act as the Fire and Rescue Authority</li> </ul> <p><i>Abolition of The London Fire and Emergency Planning Authority and the transfer of functions, property, rights and liabilities to London Fire Commissioner</i></p>	<ul style="list-style-type: none"> <li>• Powers introduced to allow increased collaboration between emergency services</li> <li>• Powers that allow the PCC to act as Fire and Rescue Authority with a variety of governance and accounting structures resulting.</li> <li>• <i>London Fire Commissioner takes on functions, property, rights and liabilities of abolished London Fire and Rescue Authority</i></li> </ul>

### Progress report on implementation of new standards and regulations

In previous reports to the Scrutiny & Audit Panel, we highlighted the issue of new accounting standards and regulatory developments. The following table summarises progress on implementation:

Name	Summary of key measures 	Impact on East Sussex Fire Authority 
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## Appendix D

### *Earlier deadline for production and audit of the financial statements from 2017/18*

- The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.

These changes provide challenges for both the preparers and the auditors of the financial statements.

To prepare for this change the Authority has taken a number of steps as outlined below:

- Critically reviewed and amended the closedown process to achieve draft accounts production by 5 June 2017 for 2016/17

As auditors, nationally we have:

- Issued a thought piece on early closedown
- As part of the strategic Alliance with CIPFA jointly presented accounts closedown workshops across England, Scotland and Wales
- Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017

Locally we have had regular discussions through the year on the Authority's proposals to bring forward the closedown timetable.

Together with the Authority agreed areas for early work which have included testing of major income and expenditure streams at month nine we were able to substantially complete our audit by 11 August 2017.



# Management representation letter

### Management Rep Letter

[To be prepared on the entity's letterhead]

14 September 2017

Ernst & Young  
Wessex House  
19 Threefield Lane  
Southampton SO14 3QB  
United Kingdom

This letter of representations is provided in connection with your audit of the financial statements of East Sussex Fire Authority ("the Authority") for the year ended 31 March 2017. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of East Sussex Fire Authority as of 31 March 2017 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

#### A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
2. We acknowledge, as members of management of the Authority, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Authority in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Authority, we believe that the Authority has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of any unadjusted audit differences accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because TBC.



# Management representation letter (continued)

### Management Rep Letter

#### **B. Fraud**

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Authority's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Authority.

#### **C. Compliance with Laws and Regulations**

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

#### **D. Information Provided and Completeness of Information and Transactions**

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Authority and committees held during 2016/17 through to the most recent meeting.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Authority's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Authority has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

#### **E. Liabilities and Contingencies**

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in to the financial statements all guarantees that we have given to third parties.



# Management representation letter (continued)

### Management Rep Letter

#### F. Subsequent Events

1. As described in Note 6 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

#### G. Representations required in specific circumstances

##### 1. Comparative information

The Authority has introduced a change in accounting policy in respect of the new formats and reporting requirements for the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement as a result of CIPFA's "Telling the Story" review of improvements to the presentation of local authority financial statements.

These changes in accounting policy required full retrospective restatement in accordance with the requirements of the Code and IAS 1 and therefore the Authority has restated the preceding year information (ie for the 2015/16 financial year). There is no impact on the Authority's Balance Sheet.

The comparative amounts have been correctly restated to reflect the above matters and appropriate note disclosure of these restatements have also been included in the current year's financial statements.

##### 2. Ownership of Assets

1. Except for assets capitalised under finance leases, the Authority has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Authority's assets, nor has any asset been pledged as collateral. All assets to which the Authority has satisfactory title appear in the balance sheet.

##### 3. Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

##### 4. Use of the Work of a Specialist

1. We agree with the findings of the specialist that we engaged to evaluate the valuation of Property, Plant and Equipment and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.
2. We agree with the findings of the specialist that we engaged to evaluate the valuation of Defined Benefit Pension Schemes and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

##### 5. Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine accounting estimates have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.



# Management representation letter (continued)

### Management Rep Letter

2. We confirm that the significant assumptions used in making accounting estimates appropriately reflect our intent and ability to carry out our duties on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

#### 6. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

*Yours faithfully,*

\_\_\_\_\_  
Assistant Director Resources / Treasurer

\_\_\_\_\_  
Chairman of the Scrutiny & Audit Panel



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